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FISCAL IMPACT STATEMENT

LS 7862

BILL NUMBER: HB 1597

NOTE PREPARED: Jan 23, 2007

BILL AMENDED:

SUBJECT: Exemption of debt service from circuit breaker.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill exempts debt and lease obligations entered into before January 1, 2008, from the application of the 2% assessed value property tax circuit breaker credit.

The bill also permits the Department of Local Government Finance (DLGF) to exempt debt and lease obligations entered into after December 31, 2007, from the application of the 2% assessed value property tax circuit breaker credit if the department determines that other revenue cannot be made available to repay debt and lease obligations without a material risk of substantial harm to the public safety or welfare of the persons served by the affected taxing units.

The bill indicates that the credit does not relieve a political subdivision from fully funding the payment of debt service or lease rentals. It also repeals obsolete provisions related to the application of a 2% assessed value property tax circuit breaker credit.

Effective Date: January 1, 2008.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: NOTE: *The following analysis of the proposed property tax credit and of the current 2% property tax credit are subject to change as local assessors finalize trending/equalization*

adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.

Both the current law and proposed credits reduce local property tax revenue. The credits under this bill would result in a smaller revenue reduction than the credits under current law. This revenue increase is estimated at \$59 M in both CY 2008 and CY 2009, and \$195 M in CY 2010. There would be no change in Lake County in CY 2007.

Under current law counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies as follows:

1. The credit is mandatory in Lake County in 2007. It applies to all residential property in 2007 unless the Lake County Council adopts an ordinance by December 31, 2006, limiting the credit to only homesteads.
2. The credit is mandatory in all counties for taxes payable in 2008 and in 2009. The credit applies to all forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties.
3. Beginning with taxes payable in 2010, the credit applies to all real and personal property in all counties.

Under this bill, the calculation of the credit would be based on a smaller tax liability beginning in 2008. The tax liability used in the calculation would be reduced by the levies for debt service and lease-rental obligations entered into before January 1, 2008.

Additionally, taxing units may file an appeal with the DLGF to exclude levies for obligations entered into after December 31, 2007. The DLGF may grant the appeal if it finds that the other funds of an affected taxing unit cannot be made available to fund the obligation without the risk of harm to persons served by the taxing unit. The appeal may be filed by:

- An individual taxing unit;
- A group of taxing units that intersect in one or more taxing districts; or
- The county on behalf of other taxing units.

Under this proposal the total cost of the credit would be estimated at \$63 M in CY 2008 and CY 2009, and \$231 M in CY 2010 if the existing debt levies were removed. The credit would affect an estimated 636 taxing units in 49 counties when fully implemented in 2010. There are a total of about 2,400 taxing units in the 92 counties. The actual fiscal impact depends on local action.

By comparison, the cost of the current 2% credit is estimated at \$122 M in CY 2008 and CY 2009, and \$426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010.

The bill would also require taxing units to fully fund the payment of debt service and lease rentals regardless of and revenue reduction due to the credits.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations.

Information Sources: LSA parcel-level property tax database; Local Government Database.

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